

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0243-01  
Bill No.: SB 10  
Subject: Labor and Industrial Relations Department; Unemployment Compensation  
Type: Original  
Date: January 3, 2011

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Bill Summary: This proposal denies unemployment benefits for those with outstanding overpayment penalties.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>                   |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2012    | FY 2013    | FY 2014    |
|   |            |            |            |
|   |            |            |            |
| <b>Total Estimated<br/>Net Effect on<br/>General Revenue<br/>Fund</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>                      |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| FUND AFFECTED   | FY 2012            | FY 2013            | FY 2014            |
| Special Employment<br>Security Fund                                   | \$1,087,669        | \$1,087,669        | \$1,087,669        |
|   |                    |                    |                    |
| <b>Total Estimated<br/>Net Effect on <u>Other</u><br/>State Funds</b> | <b>\$1,087,669</b> | <b>\$1,087,669</b> | <b>\$1,087,669</b> |

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                          |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
| <b>FUND AFFECTED</b>  | <b>FY 2012</b>      | <b>FY 2013</b>      | <b>FY 2014</b>      |
| Unemployment<br>Compensation Trust<br>Fund                            | \$10,600,000        | \$10,600,000        | \$10,600,000        |
|   |                     |                     |                     |
| <b>Total Estimated<br/>Net Effect on <u>All</u><br/>Federal Funds</b> | <b>\$10,600,000</b> | <b>\$10,600,000</b> | <b>\$10,600,000</b> |

| <b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b> |                |                |                |
|---|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                                      | <b>FY 2012</b> | <b>FY 2013</b> | <b>FY 2014</b> |
|   |                |                |                |
|   |                |                |                |
| <b>Total Estimated<br/>Net Effect on<br/>FTE</b>          | <b>0</b>       | <b>0</b>       | <b>0</b>       |

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |                |                |                |
|--|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>                       | <b>FY 2012</b> | <b>FY 2013</b> | <b>FY 2014</b> |
| <b>Local Government</b>                    | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

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## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Department of Labor and Industrial Relations (DOLIR)** assume this legislative change proposes that a claimant of unemployment benefits, who previously committed unemployment insurance fraud, would be ineligible until he or she has repaid the fraud penalty.

Overpaid benefits collected from claimants, as well as unemployment taxes paid by employers, are deposited into the unemployment compensation (UC) trust fund. Monies from the trust fund can be used only to pay unemployment benefits. Penalties collected from claimants are deposited in the Special Employment Security Fund, which can be used for administrative expenditures by DOLIR.

In most cases of fraud, claimants owe both overpaid benefits and a penalty. As of August 31, 2010, there were \$73.7 million in outstanding overpayments and \$19.5 million in penalties owed. During calendar year 2009, a total of \$16.8 million in overpayments was recovered. In state fiscal year 2010, the DES collected approximately \$991,000 in fraud penalties.

As of August 31, 2010, there were 2,645 individuals with an active unemployment claim who owed penalties totaling \$1,087,669. Under existing law, the DES collects overpaid benefits from claimants by offsetting their weekly benefits. In other words, the money that would have been used to pay benefits stays in the trust fund to repay the overpayment. As of September 1, 2010, the average amount of an overpayment identified by the DES was \$943, which is equivalent to 3.7 weeks of unemployment benefits at the average weekly benefit amount of \$252.03. The average duration of an unemployment claim is 19.6 weeks. After the estimated 3.7 weeks of unemployment benefits are offset to repay the overpayment, the trust fund is estimated to pay out 15.9 weeks of benefits, or \$4,007.28, to each claimant. If all of the 2,645 individuals with an active unemployment claim who owed penalties were denied benefits, as specified by the proposed legislation, the net effect on the trust fund would be a savings of \$10.6 million. Assuming all 2,645 claimants paid the penalty owed, the Special Employment Security Fund would see additional revenue of \$1,087,669.

The source of funding to administer this proposal is DOLIR's federal administrative grant. It is anticipated that up to three additional full-time employees (FTEs) would be needed to process appeals and hold appeals hearings for individuals who are determined to be ineligible. It is also anticipated that two FTEs would be needed to process the additional payments and reconsider ineligibility determinations after full penalty restitution has been received. The total cost of the five additional FTEs is \$239,719 in FY2012, \$290,540 in FY2013, and \$293,446 in FY2014.

JH:LR:OD

ASSUMPTION (continued)

The Division is assuming the staffing needs would be absorbed into DOLIR's existing federal administrative grant.

| <u>FISCAL IMPACT - State Government</u>                                     | FY 2012<br>(10 Mo.)        | FY 2013                    | FY 2014                    |
|---|----------------------------|----------------------------|----------------------------|
| <b>SPECIAL EMPLOYMENT<br/>SECURITY FUND</b>                                 |                            |                            |                            |
| <u>Savings - penalty money collected</u>                                    | <u>\$1,087,669</u>         | <u>\$1,087,669</u>         | <u>\$1,087,669</u>         |
| <b>ESTIMATED NET EFFECT ON<br/>SPECIAL EMPLOYMENT<br/>SECURITY FUND</b>     | <b><u>\$1,087,669</u></b>  | <b><u>\$1,087,669</u></b>  | <b><u>\$1,087,669</u></b>  |
| <b>UNEMPLOYMENT<br/>COMPENSATION TRUST FUND</b>                             |                            |                            |                            |
| <u>Savings - denied benefits</u>  | <u>\$10,600,000</u>        | <u>\$10,600,000</u>        | <u>\$10,600,000</u>        |
| <b>ESTIMATED NET EFFECT ON<br/>UNEMPLOYMENT<br/>COMPENSATION TRUST FUND</b> | <b><u>\$10,600,000</u></b> | <b><u>\$10,600,000</u></b> | <b><u>\$10,600,000</u></b> |
| <u>FISCAL IMPACT - Local Government</u>                                     | FY 2012<br>(10 Mo.)        | FY 2013                    | FY 2014                    |
|   | <u>\$0</u>                 | <u>\$0</u>                 | <u>\$0</u>                 |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

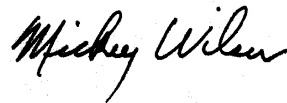
### FISCAL DESCRIPTION

Claimants are denied unemployment benefits for any week the claimant has an outstanding overpayment penalty.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Labor and Industrial Relations

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
January 3, 2011